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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Newaygo County FIA for the period October 1, 1998 through November 5, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Newaygo County FIA had 50 full time equated positions (FTE's) at the time of our review. Newaygo County FIA provided assistance to an average 3,584 recipients per month during FY 1998, with total assistance payments of \$4,304,107 during that year.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Newaygo County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
Accounts Receivable	General Ledger
Modified Accrual Basis Balance Sheet	Safe and Controlled Documents
Food Stamp Inventory and Issuance	Medical Transportation
State Emergency Relief (SER)	Employment Support Services
Client Processing	CIS/ASSIST
IRS Information Security	Payroll and Timekeeping
Procurement Card	Telephone Usage
Child Well Being	

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Newaygo County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization.

## **LOCAL OFFICE RESPONSE**

The management of Newaygo County FIA has reviewed all findings and recommendations included in this report. They indicated at the exit conference on November 5, 1999 that they are in general agreement with the report.

## **FINDINGS AND RECOMMENDATIONS**

### **Cash Receipts**

#### **Verification of Deposits**

1. Newaygo County FIA did not follow established procedures for verifying that funds received through the mail were deposited. The Office Supervisor verified funds to be deposited with the amount entered on the Deposit Advice prior to the deposit being made. Accounting Manual Item 433, page 4, requires verification that all moneys received by the Cashier are included in the deposit. This is accomplished by reconciling entries on the mail logs with the receipts on the edit listing, and by verifying that the amount of cash to be deposited is equal to the total amount of cash receipts.

Verification of the funds to be deposited with the mail logs and edit listing prior to the deposit being made improves internal controls over the cash receipting process.

WE RECOMMEND Newaygo County FIA verify that all funds received by the Cashier are included in the deposits, as required by Accounting Manual Item 433, page 4.

#### Official Cashier Receipts

2. Newaygo County FIA did not prepare Official Cashier's Receipts (FIA-3681) for registration fees received from customers to attend a local camp. Instead, Newaygo County FIA recorded the registration fees on a log and held the funds until the customer attended the camp. The funds were then given to a volunteer to make payment to the camp. The volunteer signed the log to indicate receipt of the funds. From March 1999 through July 1999 the Newaygo County FIA received \$1455.00 in camp registration fees.

We also found that payments received from the County of Newaygo for customer restitution for over-issuances were not being receipted in until the over-issuance was entered on the Automated Recoupment System. One check for \$584.00 was held for three months before the Official Cashiers Receipt was prepared and another for \$220.00 received on 8/2/99 had not been receipted in as of November 4, 1999. These funds can be recorded in the Undetermined Revenue Account until the over-issuance is entered on the Automated Recoupment System.

Delays in receipting and depositing money received increases the risk that cash and negotiable instruments could be misplaced and unaccounted for.

WE RECOMMEND Newaygo County FIA prepare Official Cashier's Receipts for the camp registration fees received from customers.

WE ALSO RECOMMEND Newaygo County FIA promptly prepare Official Cashier's Receipts for the over-issuance restitution received from the County of Newaygo.

## **General Ledger**

### **Outstanding Checks**

3. Newaygo County FIA did not follow established procedures for returning outstanding checks to cash. There was one outstanding check for \$274.00 on the May 31, 1999 bank reconciliation outstanding checklist that was over six months old. The check was issued in September 1998. Accounting Manual Item 405, page 4, states that checks appearing on the outstanding checklist for six consecutive months should be returned to cash.

WE RECOMMEND Newaygo County FIA review the outstanding check list each month and return outstanding checks to cash after six months, as required by Accounting Manual Item 405, page 4.

## **Modified Accrual Basis Balance Sheet**

### **Accounts Payable and Reserve Accounts not Established in the General Ledger**

4. Newaygo County FIA did not have all of the appropriate accounts payable and reserve accounts required to prepare a Modified Accrual Basis Balance Sheet established on the Local Office accounting system. Accounting Manual Item 402.3, page 3, states that these accounts should be included in the chart of accounts maintained on the Local Office accounting system

WE RECOMMEND Newaygo County FIA establish the necessary accounts payable and reserve accounts on the Local Office accounting system.

